Social Security benefit freeze for 65 million in US

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Some 65 million people, one-fifth of the US population, will see no cost-of-living increase in their Social Security or SSI disability checks next year, the Social Security Administration announced Thursday. This will be the third year in the last seven that Social Security and SSI recipients have had no cost-of-living increase.

This will come as a serious blow to tens of millions of elderly and disabled people for whom Social Security or SSI are the only, or the principal, source of income. For 26 million people, nearly half the 56 million recipients of Social Security, the benefit checks are the difference between living below the official poverty line or above it. The average monthly Social Security check is $1,224. (SSI benefits are typically much lower, only $733 a month for individuals and $1,100 a month for a couple).

In the 40 years since Congress legislated automatic annual cost-of-living increases for Social Security and SSI recipients, there have only been three years with zero increases, all during the Obama administration—2010, 2011 and now for 2016. Such raises have averaged only 2 percent a year since 2000, compared to 4.5 percent a year in the 1980s and 1990s.

Determination of Social Security and SSI cost-of-living raises is based on a formula adopted by Congress in 1975, tied to increases in the Consumer Price Index. This year’s CPI fell 0.4 percent, mainly because of the sharp drop in gasoline prices, although cheaper gas is of comparatively little benefit to the elderly and disabled, who for the most part do not commute to work, and drive much less on average than younger people.

Groups advocating on behalf of the elderly and disabled have urged a switch to a cost-of-living formula more closely aligned with the typical expenses of the older segment of the population, particularly healthcare and other forms of social assistance, whose costs have skyrocketed.

The low inflation as recorded by the CPI also means that there will be no increase in the level of wage income subject to taxes for Social Security and Medicare. Income above $118,500 a year is exempt from these payroll taxes, a huge windfall for the upper middle-class and the wealthy, and that ceiling will not rise by even a dollar next year. Eliminating the ceiling would extend the solvency of the Social Security and Medicare trust funds indefinitely.

For a substantial proportion of Social Security recipients, the hardship of a benefit freeze for 2016 will be exacerbated by a sharp increase in the monthly premium for Medicare Part B (physician and nursing services), which is deducted directly from their Social Security check.

The majority of Medicare recipients are covered by a “hold harmless” provision that bars any increase in their Medicare Part B premium in any year that they do not receive an increase in Social Security benefits, in order to avoid actual reductions in income due to rising healthcare costs.

Under the current law, however, the premium increases are not eliminated, but shifted to the 30 percent of Medicare beneficiaries not covered by the “hold harmless” provision. In effect, this smaller group of Medicare beneficiaries must pay disproportionately to make up the difference, with increases in Part B premiums estimated at 52 percent for 2016, from $104.90 a month to $159.30.

Approximately 17 million people are threatened by these increases, costing nearly $650 a year. By far the largest number of these, some 9.6 million, are the poorest elderly, so-called dual-eligibles, who qualify for both Medicare and Medicaid, the program subsidizing health care for the poor.

Their Medicare premiums are generally paid by Medicaid, with a portion of the cost borne by the states rather than the federal government. The increase in Medicare premiums thus threatens to produce substantial deficits for state governments, which are legally required to balance their budgets every year, triggering demands for cuts in Medicaid or other programs.

The others to be hit by the premium increases, which they will have to pay out of pocket, are defined by a variety of circumstances that conform to no discernible logic:

• people turning 65 in 2016

• those younger than 65 but covered by Medicare because of an acute condition like kidney disease

• people over 65 who have deferred taking Social Security in order to qualify for higher benefits at a later age

• those covered by other retirement plans, such as retired federal, state and local government workers, who get a pension rather than Social Security

• about 3 million retirees in the highest income brackets.

The cost of avoiding the whopping Medicare premium increases in 2016 is estimated at $7.5 billion. The Obama White House said that it was in discussion with congressional Republican and Democratic leaders on a measure to offset the increases, which might be incorporated into the ongoing talks over the federal government's Fiscal Year 2016 budget.

The Centers for Medicare and Medicaid, the federal agency that makes the final determination on Medicare benefits, is to release premium figures later this month. CMS is also expected to raise the annual deductible, the amount that beneficiaries must pay before Medicare begins covering bills, from $147 in 2015 to an estimated $223 next year, an increase of more than 50 percent.

The increased deductible will be paid by all 51 million Medicaid recipients, adding another burden to many elderly and disabled people living at or just above the poverty line.

Some 70 organizations, including unions, retiree groups, health care advocacy groups and health insurance trade associations, sent a letter to Congress last week calling for action to "mitigate projected increases in Medicare premiums." The letter cited studies showing that half of all Medicare recipients have incomes of $24,000 a year or less, making the increases in premiums and deductibles a major hardship.

The overall impact of the freeze in Social Security benefits and the increases in Medicare premiums and deductibles will be to exacerbate an already intensifying social crisis in America. Large numbers of elderly people will be forced to choose between paying for health insurance and paying to heat their homes or put food on their tables.

The latest premium hike takes place against the backdrop of a growing attack on retirement and health care benefits throughout the country. Earlier this month, the Teamsters Central States pension fund announced plans to slash payouts for 400,000 beneficiaries by an average of 23 percent, with some losing half their benefits.

The fund's action is the outcome of a law passed late last year, with the support of the Obama administration, which sets the framework for gutting the pension benefits of one million US workers participating in multi-employer retirement funds. The slashing of private-sector pensions protected by federal insurance sets a precedent for further attacks on federal retirement programs, including Social Security.